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October 5, 2006

HAND DELIVERY

Judge Dwight Nodes

Hearing Division

Arizona Corporation Commission

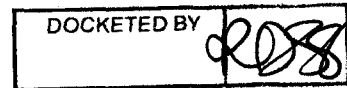
1200 W. Washington Street

Phoenix, Arizona 85007

Arizona Corporation Commission

DOCKETED

OCT 05 2006



Re: Johnson Utilities, L.L.C. - Application for Extension of Certificate of Convenience and Necessity (CC&N) Docket Nos. WS-02987A-05-0088

Dear Judge Nodes:

Consistent with your guidance at the hearing on this matter, the Company and the Staff have discussed language that would address the concerns raised at the hearing and permit the use of a Letter of Credit. We understand that the Staff has submitted draft language for an ordering paragraph in an amended Decision that modifies the Company's original proposal to Staff. The Company can accept many of Staff's proposed revisions, but we have been unable to reach a consensus on three items. The Company is concerned with the reference to the "Interim Operator" in Staff's language. Subsequent to discussions with Staff, the Company has also added an additional clause that, in effect, permits the Company to "cure" any cash shortfall prior to resorting to the Letter of Credit.

The Company's language differs from the Staff's proposal in three ways. First, the Sonoran litigation has been dismissed, so it does not need to be referenced. We would again point out that the Company has not been named in the La Osa litigation. More importantly, the reference to the Interim Operator in Staff proposal presumes facts not in evidence, namely, that due to unsuccessful results of litigation of a sister entity which may or may not cause financial issues with the Company, that there are resultant management issues with the Company. Clearly there is no connection between the two assumptions. Therefore, the Company proposes making those funds available to the Company under the administration of the Commission.

The third difference is an additional provision that requires the confirmation that the Letter of Credit proceeds are, in fact, needed for the designated purpose. Mr. Johnson is of substantial worth, far above any exposure his other entities may have as a result of the


litigation. This fact permits the utility to have access to funds well beyond the limits of the Letter of Credit.

The original bond was proposed to project against any financial exposure of the utility and its customers based upon two of the Company's sister entities litigation. There was no expressed concern with the Company's management competence. At the time the Commission determines it is necessary to draw upon the Letter of Credit, it can certainly make a determination whether an Interim Operator is appropriate, but to predetermine that such a drastic measure is needed is clearly premature and inappropriate. We believe that the language proposed in the attached Company language, meets the Commissions objective of providing the Company with the funds to cover the cash shortfall, if any, caused by unsuccessful litigation, and also provides the Commission with the opportunity to make that determination regarding the administration of those funds at the time of the need for those funds.

The Company appreciates the desire of the Commissioners and the Commission Staff to prepare standardized letter of credit/bond language and ordering paragraph provisions usable in future decisions where performance bonds or letters of credit are appropriate. We would only respond that the present factual situation of this particular Company is substantially different than the protection the Commission may need for a start-up company, or the extension of a Certificate for a small company. Despite the desire to address these issues generically, as often stated by the Commissioners, each company and each situation must be considered on its own merits. The Company's proposed language addresses the genesis of the bond requirement, namely, the threatened litigation in these proceedings.

The Company appreciates your consideration this matter.

Sincerely,



Richard Sallquist

Cc: Docket Control (15copies)
Chris Kempley
Utilities Division
Brian Tompsett

Ordering Paragraph for Amended Decisions

IT IS FURTHER ORDERED that the Company shall docket copies of the Letter of Credit with the Commission's Docket Control, and provide the original Letter of Credit to the Director of the Utilities Division, in a form acceptable to the Director, which Letter of Credit shall provide that in the event the Commission finds, (1) that as a result of a judgment occurring in the La Osa lawsuit the Company is not providing adequate service to its customers within the expansion area as set forth in this Decision, and (2), that the Commission has confirmed that the Company's Members, are neither willing nor able to invest such additional funds necessary to assure adequate service to the customers, then and upon the occurrence of those events as certified by the Commission, the Commission may draw upon the Letter of Credit by directing the proceeds to be paid directly to a trust account of the Company to be utilized for the operation of the Company for providing adequate service to the customers within the subject expansion area. The Company shall be required to use the proceeds of any funds drawn upon solely for the purpose as described in the Company's agreement with the Commission, or any Decision in that regard. Any excess funds existing at the time of termination of the agreement shall be returned to the Company's general fund.

Revisions to first two paragraphs of Haug Exhibit 2 Attachment 1

IRREVOCABLE STANDBY LETTER OF CREDIT NO. _____

Date _____

Johnson Utilities Company
5203 East Shea Blvd., Suite 200
Scottsdale, Arizona 85252

Gentleman:

At the request of Johnson Utilities Company (the "Beneficiary") and the Arizona Corporation Commission (the "Commission"), we, National Bank of Arizona, have opened an IREVOCABLE LETTER OF CREDIT in favor of Johnson Utilities Company for \$500,000, available by Commission drafts at site.

We warrant to you that all your drafts under this IREVOCABLE LETTER OF CREDIT will be duly honored and paid to the Beneficiary upon presentation of a sight draft by only the Commission on us at:

National Bank of Arizona
Documentation Department AZ 7013
6001 N. 24th Street
Phoenix, Arizona 85016

on or before the expiration date or owner before any automatic extended date set forth below.